Embracing the Future!

WestJet Airlines 1999 Annual Report

Embracing our Guests!

WestJet's great Team at the Vancouver Airport.

Cover: Flight Attendant Jacqualine shares a smile with a WestJet guest.

WestJet Airlines Ltd. is a public company, traded on the Toronto Stock Exchange under the symbol WJA.

WestJet's headquarters are located in Calgary, Alberta; the airline also has operations at the airport in each city it serves. As of December 31, 1999, WestJet flew sixteen Boeing 737-200 jet aircraft to twelve cities across western Canada including Victoria, Vancouver, Abbotsford/Fraser Valley, Kelowna, Prince George, Grande Prairie, Edmonton, Calgary, Regina, Saskatoon, Winnipeg and Thunder Bay.

At the end of 1999, WestJet employed 1089 people, who helped to fly more than 2.3 million guests all around the west.

The WestJet Airlines Annual General Meeting will be held May 4, 2000 at 2:00 pm at the Sheraton Cavalier Hotel, 2620-32 Avenue NE, Calgary, Alberta.

Table of Contents

Highlights

(Dollars in millions except per share figures)

Finance	1999	1998	1997
Revenues	$ 203.6	$ 125.4	$ 77.1
Earnings before income taxes	$ 29.3	$ 12.4	$ 9.0
Net earnings	$ 15.8	$ 6.5	$ 6.2
Net earnings per common share			
Basic	$ 0.63	$ 0.28	$ 0.28
Fully diluted	$ 0.58	$ 0.28	$ 0.27

Operating Highlights			
Revenue passenger miles	902,945,131	639,157,206	406,376,456
Available seat miles	1,249,316,243	893,008,646	575,746,918
Load factor	72.3%	71.6%	70.6%
Yield per revenue passenger mile (cents)	22.5	19.6	19.0
Passenger revenue per available seat mile (cents)	16.3	14.1	13.4
Operating cost per available seat mile (cents)	13.9	12.6	16.8
Average stage length (miles)	383	378	349

Glossary

Revenue Passenger Miles
A measure of passenger traffic, calculated as the number of revenue passengers multiplied by the total distance flown.

Available Seat Miles
A measure of total passenger capacity, calculated by multiplying the total number of seats available for sale by the total distance flown.

Load Factor
A measure of total capacity utilization, calculated as the proportion of total available seat miles occupied by revenue passengers.

Yield (Revenue per Revenue Passenger Mile)
A measure of unit revenue, calculated as the gross revenue generated per revenue passenger mile.

Message to Shareholders

Stephen Smith, President and Chief Executive Officer.

Embracing the Future!

On behalf of WestJet Airlines, I would like to thank you for embracing our company. I am very pleased to present WestJet's Financial Results for 1999, a year in which there was certainly much for us to celebrate. We added more people, more aircraft and more destinations, while continuing to maintain the corporate culture and low-fare strategy that have made us so successful over the past four years.

WestJet embraces our achievements.

Our financial success continued through 1999 and we saw a 143% increase in net earnings, to $15.8 million from $6.5 million in 1998.

Earnings per share (fully diluted) also more than doubled from 28 cents in 1998 to 58 cents in 1999. We were also pleased to celebrate with our employees a $6.6 million profit share distribution, which represented a substantial increase from the $1.7 million distributed in 1998.

We expanded our fleet by five aircraft during 1999, and retired one aircraft from service pending sale. As of December 31 we had a total of 16 aircraft in our fleet. The additional aircraft were used to expand our summer schedule and to provide service to the three newest WestJet destinations.

Our on-time performance continued to improve throughout 1999 – we have one of the best records in the industry – while our number of delayed and cancelled flights decreased.

Our schedule of flights increased throughout 1999 up from 404 flights operating per week at the end of 1998 to 590 per week as of December 31, 1999. This growth took us past the milestone of carrying our 5,000,000th guest onboard our flight between Thunder Bay and Calgary on November 30.

In 1999 WestJet added three permanent destinations – Thunder Bay, Ontario, Prince George, British Columbia and Grande Prairie, Alberta. We also operated a *Limited Addition* service to Brandon, Manitoba and Grande Prairie, Alberta. Through the *Limited Addition* product, we are able to bring low fares on a temporary basis to communities that do not enjoy WestJet's scheduled service. Based on the success of the *Limited Addition* service to Grande Prairie, we added permanent service to this market.

WestJet became a public company through an Initial Public Offering on July 13 at $10.00 per share. The shares were listed on the Toronto Stock Exchange under the symbol WJA and closed the year at $18.65 per share.

WestJet welcomed two new members to our Board of Directors: Mr. Larry Pollock, President and CEO of Canadian Western Bank and Canadian Western Trust, and Mr. Donald A. MacDonald, the President of Sanjel Corporation. Both new directors bring a wealth of business experience to our Board and we appreciate their contribution and direction.

WestJet embraces our people.

The dedication of our people remains the primary reason for our

success. Their consistent bright smiles, positive attitudes and hard work make it possible for us to exceed the expectations of our guests and shareholders every day. We have an exceptional organization, with a motivated, non-unionized workforce, and we work hard to recognize them for going "above and beyond," through celebrations and tangible benefits such as our Profit Sharing and Share Purchase programs.

In early 2000, we recruited and hired a new Vice President of People, Foster Williams, to lead our recruitment processes for our growing workforce and to provide support to all WestJetters. As we expand our business across Canada, recruitment and training continue to be key focuses for our organization.

During 1999, WestJet facilitated the formation of an employee association called PACT (the Pro-Active Communication Team) to represent all non-management WestJet employees. This group is lead by an elected body of seven members that meets with the Executive Team on a regular basis, and works to maintain WestJet's positive corporate culture and employee-management relations. The people of WestJet are committed to maintaining a non-unionized environment, and see this group as a means to communicate and resolve any concerns or issues that could potentially hinder the growth and success of WestJet.

We strive to keep an open relationship with our people, holding monthly Town Hall Meetings, with our Executive Team, at which our people can ask any questions about our company and our industry. Communication is a top priority for us, particularly as our team had grown to 1089 people as of December 31.

WestJet embraces innovation and technology.

Throughout 1999 we have dedicated significant resources to the development of our Internet website which is anticipated to provide substantial savings in our distribution costs as our airline expands. Though WestJet has a competitive advantage due to our exceptional customer service levels in our call center, and our strong relationships with our travel agent partners, we achieve unit cost savings per guest booked with the development and expanded use of this technology. Customers and travel agents can easily log on to our website at **www.westjet.com** and make a booking for any one of our destinations, as well as find other information about our company.

Implementing new technologies is an important priority for us as we expand our operations, allowing our people to remain focused on providing exceptional customer service. New enhancements to our in-house reservation and yield management systems were implemented, along with a unique program in the area of Product Development which makes our packaging partnerships and group sales more automated and therefore more efficient. Cost savings through innovation are constantly being recognized within WestJet and our entrepreneurial spirit ensures that our people continue to look for new ways to be more productive in their every-day work.

The touch screen check-in is another promising project under development within WestJet. These terminals will allow guests travelling without checked baggage to check themselves in, select a seat and receive a boarding pass. This new technology (currently being tested in two of our airports) has been well-received by our guests, who can use the touch screen check-in for convenience and minimize their check-in time.

WestJet embraces opportunity.

Our strategy since our launch on February 29, 1996 remains unaltered: to draw people off their couches and off the roads, taking them from the highways to the skyways to visit their friends and families across Canada. This market stimulation strategy remains the basis of our business plan and continues to increase the number of people travelling by air each year. Our increased frequencies in western Canada have also made our service more attractive to the business traveler.

1999 is a year that will be remembered as the start of a significant turning point in the Canadian airline industry, culminating in January 2000 with the consolidation of Canada's two national airlines. Though the implications of this purchase continues to unfold daily, the results of this consolidation and restructuring of the airline industry in Canada has already – and will in the future – provide WestJet with many opportunities.

The purchase has also heightened the interest of the Competition Bureau and of the Transport Minister's Office, which each released recommendations on how to ensure the travelling public in Canada will be protected in a market with one dominant carrier. We have welcomed this examination of our industry by regulatory bodies and we trust that WestJet will benefit as the government establishes a framework for fair competition in the industry.

The restructuring in our industry has presented us with an opportunity to expand our service and move towards our vision of becoming Canada's low-fare, short haul airline. After announcing in December 1999 that we would extend our operations eastward, WestJet flew its first flights from the Hamilton Airport in March 2000 to Winnipeg and Thunder Bay. WestJet made a strategic move in choosing Hamilton as our new eastern hub; aside from the tremendous advantages in terms of less congestion and better accessibility compared to the Toronto Pearson Airport, we were able to move quickly to add service there before the start-up of any other discount carrier.

By the end of September 2000, we will be providing service to Ottawa, Ontario, Montreal, Quebec and Moncton, New Brunswick. We have been well-received by the people of southern Ontario, and have seen excellent advance bookings on of our all routes serving eastern Canada.

WestJet embraces our future.

Though our geographical service areas may change as we grow, our strategy and commitment to our business plan will not. We remain dedicated to maintaining low costs throughout our operations and to ensuring constant, consistent, and manageable growth. We also remain committed to integrating technology to ensure efficiency and excellence in customer service; to ensuring our people are supported and empowered by their company; and to maintaining the WestJet culture that has become a trademark and is paramount in our successes.

Our people are currently separated in five buildings throughout Calgary. As a result, we will be leasing a four-story, 67,000 square foot facility to be built in northeast Calgary with an anticipated occupancy date of September 2000. Our maintenance and operations teams will also benefit from the construction of a new hangar facility to be owned by WestJet at the Calgary International Airport, scheduled for completion in December 2000.

In February 2000, we reached an agreement with Boeing Corporation for the firm acquisition of 20 new generation 737 aircraft. In addition, we will lease ten aircraft through GE Capital Aviation Services. This agreement also takes into consideration the long-term growth of our company, providing the option to acquire up to 40 additional 737 aircraft. These aircraft are scheduled to be phased in starting in the second quarter of 2001, and we will cycle out our existing 737-200 series aircraft over the following six years. We are pleased with the flexibility built into this agreement in terms of type and number of aircraft.

We feel extremely confident in our partnership with Boeing and in the advantages these new aircraft will deliver in enabling us to serve a large and growing market that we have barely begun to serve. These aircraft will bring significant benefits to our company, in terms of better fuel efficiency, increased utilization, reduced maintenance costs, increased reliability and enhanced guest comfort. The new aircraft will allow us to be more profitable due to these factors and their much longer useful life.

With four years behind us, we have learned a great deal, and we will continue to learn and grow as we move ahead. At the same time, we know that our presence has made a difference in this country, and we are excited about the prospects for our airline in this new century. On behalf of all of our people and our guests, I thank you for supporting us, and for believing in our ability to embrace our future.

Stephen Smith

Stephen C. Smith
President and Chief Executive Officer
March 2000

Management's Discussion & Analysis

Members of WestJet's Kelowna Airport Team: Lori Rae, Darci, Debb and Jennifer.

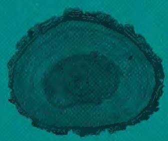
Embracing new Ideas!

Overview

WestJet flew through its fourth year of operations with steady growth and improved earnings, as it continued to build infrastructure to position itself for the opportunities in our changing industry.

During 1999, the airline grew from 665 to 881 full-time-equivalent employees, acquired five Boeing 737 jets (for a total fleet of 16), commenced service to the new destinations of Thunder Bay, Prince George, and Grande Prairie, and improved frequency and non-stop routing between its existing destinations. Clive Beddoe became Executive Chairman in March and welcomed Stephen Smith as the new President and Chief Executive Officer to lead the corporation into the new millennium. On July 13, 1999, WestJet issued 2,750,000 common shares for net proceeds of $25.0 million in its oversubscribed initial public offering, and commenced trading under the symbol WJA on the Toronto Stock Exchange. In November, employees were rewarded with a $3.9 million interim distribution of 1999's total profit share of $6.6 million. Later the same month there was a sod-turning ceremony for a new Head Office building to house the airline's administration and call centre functions. Record earnings results in all quarters, positive growth potential, and the announcement in December of WestJet service in eastern Canada, all contributed to a rising share price, from the $10.00 per share issue price in July to close at $18.65 per share on December 31, 1999.

The corporation's excellent 1998 performance was enhanced in 1999, an endorsement by the travelling public of



Milestones were made

We carried our 5,000,000th guest on November 30th. Just think of the number of trees we saved by not printing tickets.

Schedules were busy

With 590 flights per week, there is almost always a WestJet plane in the air.

Success was shared

WestJetters received $6.6 million in profit-sharing distributions in 1999.

Hearts were lifted

There were 10 marriage proposals on board WestJet flights in 1999. Everyone said yes.

WestJet's business plan and low-fare, controlled cost model for market stimulation. WestJet's available seats in the marketplace increased by 40% over 1998 and that added capacity was more than absorbed by the travelling public as demonstrated by an increase in load factor from 71.6% in 1998 to 72.3% in 1999. WestJet continued to deliver a quality product at an affordable price, including added frequency, an improved schedule, the expanded choice of destinations, the operational quality in terms of on-time performance, and the efficiency and ease of making a reservation and checking-in. A key to the 1999 financial success was the friendliness and positive attitude displayed by the people of WestJet and their constant attention to creativity and improved productivity.

Results of Operations

Net earnings for 1999 were $15.8 million, a 143% increase over 1998's $6.5 million due to growing revenues and stable costs which resulted in improved margins on much larger revenues. The corporation's 1999 earnings from operations of $30.5 million - or 15% of revenues - compared favorably with 1998's margin of $13.1 million or 10% of the airline's total annual revenues. Earnings before interest, income taxes, depreciation, and aircraft rent (EBITDAR) was $41.4 million in 1999, a 111% increase over 1998's $19.6 million. The EBITDAR margin improved from 1998's 15.6% to 20.3% in 1999.

These earnings numbers are after deduction of the employee profit share provision. WestJet's earnings before income taxes and profit share provision were $37.1 million or 18% of revenues in 1999, compared with $14.8 million or 12% of revenues in the previous year. Profit sharing is based on the corporation's pre-tax margin and will result in a $6.6 million distribution to eligible employees for 1999 as compared with a $1.7 million profit share for 1998. This 288% increase is in part due to the growth in size of the airline, its revenues and employee base, but is also attributable to the incremental nature of the plan's formula. As WestJet's operating margins improve so does the percentage of profit share, subject to a cap. This plan is an integral part of WestJet's compensation program, which further aligns the interests of its people with those of its shareholders and is designed to encourage exceptional performance.

WestJet's financial performance resulted in fully diluted earnings per share growth from 28 cents in 1998 to 58 cents in 1999. Cash provided by operations amounted to $47.8 million, exactly double the amount generated in 1998.

Revenues

WestJet's growth in 1999 can best be measured by capacity or available seat miles, and the success of that growth is best reflected by the number of passengers in those seats and the corresponding revenue yield. Available seat miles increased 40% from 893 million in 1998 to 1.25 billion in 1999, while revenue passenger miles increased at a faster pace, with a 41% change from 639 million in 1998 to 903 million in 1999.

Yield or revenue per revenue passenger mile increased 15% from 19.6 cents in 1998 to 22.5 cents in 1999, while total revenues increased by 62% over 1998 to $204 million. The airline continues to focus on scheduled service and as in 1998, with 95% of its total revenue being derived from domestic operations. WestJet also has a number of contracts with major Canadian tour companies for off-peak hour charters flying to southwestern USA destinations, providing improved aircraft utilization and a positive revenue stream on incremental operating costs. Income from cargo operations remains insignificant but again, provides incremental revenues for carrying small packages and envelopes. Charter, cargo, and other revenues derived from guest service fees amounted to $9.9 million in 1999, a 45% increase over the previous year, and a consistent 5% of total revenues of the corporation.

A portion of the absolute dollar revenue increase and the yield increase relates to the continued implementation of and transition to Nav Canada fees, used to run Canada's air traffic control and navigation systems. These fees, once paid by the travelling public as an air transportation tax, are now paid directly by the airlines and included in operating expenses. WestJet and other carriers have implemented fare increases and surcharges to cover those cost increases, and as a consequence, revenues and expenses have both increased over the past two years. The end result remains the same to both the airline's earnings and to the paying guest, but is presented differently in financial statements. Our guest now sees one all-in fare, instead of a base fare and an added tax. This change prevents a true comparison of growth in our year-over-year revenues as presented in financial statements. Nav Canada fees of $14.8 million were included in 1999 operating expenses and similarly $6.0 million was in operating expenses in 1998.

Nav Canada fees had a similar impact on expenses and for proper comparison of the trending on total costs of operations, Nav Canada should be excluded from the costs. With Nav Canada fees and employee profit sharing included, total expenses increased 54% from $112.3 million in 1998 to $173.1 million in 1999. Excluding Nav Canada fees and employee profit sharing, total expenses in 1999 were $151.7 million, a 45% increase over 1998's $104.6 million. On a unit basis, costs per available seat mile rose by 10% from 12.6 cents to 13.9 cents. Adjusted for Nav Canada fees and employee profit sharing, WestJet's total unit costs actually only increased by 3%, from 11.7 cents per available seat mile in 1998 to 12.1 cents in 1999.

In 1999, there were significant improvements in employee productivity: we reported 60.5 full-time-equivalent employees per aircraft on December 31, 1998, and that number decreased to 55 per

Flight Attendants Trish and Christine providing [illegible] and beverage [illegible]

aircraft a year later. In terms of employees per operating aircraft or those in the fleet actually in revenue service, WestJet had 83 employees per aircraft at the end of 1998, but only 73 by December 31, 1999.

Normal pay scale increases resulted in an average of 5% wage increases over all employee groups in 1999, not including the impact of profit sharing. These planned pay increases were the drivers for the unit cost increases in the categories of Reservations, Flight Operations, and Inflight, where salaries, wages, and benefits are the largest single category of expenditure. The employee share purchase plan, under which the corporation matches up to 20% of an employee's pay that is used to purchase shares, is a benefit expense that increased significantly in 1999. The number of participants and the participation levels by the airline's employees in the share purchase plan increased as a result of WestJet deciding to become a publicly listed corporation. This in turn resulted in increased market visibility and liquidity as well as enhanced the potential of this important component of the total compensation plan. At the end of 1999 approximately 75% of employees were participating in the employee share purchase plan with an average participation level of 11% of their base salary or wage. The employees have contributed $8.1 million, including the employer's matched portion, since 1996 and share purchases under this program represent 5.7% of the outstanding common shares of the corporation.

WestJet realized improved economies of scale and purchasing power, due to the growth of the airline. Most notably, the investment in a second operational spare aircraft resulted in a 45% unit cost reduction for those expenditures associated with irregular operations when flights are delayed or cancelled due to mechanical problems or weather. This cost saving does not include the intangibles of guest goodwill and our airline's reputation for a quality product in terms of on-time performance and completion rate.

Aircraft ownership costs of leasing, depreciation, insurance and interest on debt increased on a unit basis in 1999 as a result of the spare aircraft fleet plan as well as the 1998 and early 1999 debt and lease financing arranged for the airplanes added during 1999. A further analysis where interest income earned on the cash reserves generated from the mid-year share issue is factored against those ownership costs, the unit cost increase equals the unit cost decrease associated with irregular operations.

The other significant components of the 3% unit cost increase in 1999 - other than aircraft ownership costs - were maintenance, fuel, and travel agent commissions.

Maintenance unit costs increased 2.8% in 1999 over 1998, which was a combination of the favorable impact of a strengthened Canadian dollar late in 1999 and the normal and expected cost increases associated with an ageing fleet of B737-200 aircraft.

Aircraft fuel is a major expense category and WestJet hedges the majority of its jet fuel through fixed pricing arrangements with its fuel suppliers. In 1998 these pricing arrangements accounted for approximately 90% of the corporation's fuel requirements and in 1999 it accounted for approximately 70%. The fixed fuel price for WestJet in both 1998 and 1999 eliminated the uncertainty of fluctuating costs associated with a volatile energy price, on a cost category that represents just under 20% of our total operating expenses. While the corporation did not enjoy the benefit of low prices for the winter of 1998-1999, it has not been exposed to the highs later in the year except for that portion of total fuel purchases not covered by the volumes in the fixed pricing arrangement. As the airline continues to grow in size and geographically in new locations, there will be increasing volumes of fuel purchases outside of the hedge. This exposure and variability on the unhedged portion, with low costs in 1998 and a larger volume with higher costs in 1999, resulted in a 6.6% unit cost increase for jet fuel in 1999 over 1998.

Travel agent commissions are based upon 9% of the fare and account for the 4.7% increase in Sales and Marketing expenses. As has been the case since start up in 1996, travel agents are an increasing part of WestJet's total business, starting at less than 20% of bookings and expanding to a 25% average in 1996, 30% in 1997, 35% in 1998 and over 40% in 1999. The increased portion of revenues derived from this important distribution channel comes with an increased cost in terms of commission, but has also been a large factor in the revenue growth and particularly in the improved revenue yields where, excluding Nav Canada fees, revenue yield increased by 12%.

Financial Condition

The operations provided $47.8 million of cash in 1999, as compared with $23.9 million a year earlier. The initial public offering of

Every WestJet flight is proof that smiles and friendly greetings still make the world go round.

With millions served and counting, we've brought the pretzel to new heights.

No matter how much we grow, we'll always love serving these childhood favourites.

Lana is a member of the Winnipeg Airport team.

shares netted $25.0 million and the employees contributed another $3.2 million in capital through the share purchase and share option plans for a total of $28.2 million as compared with the contributions under the employee share purchase plan of $2.1 million in 1998. In 1998 WestJet increased its debt by $20.8 million of new borrowings and repaid $2.5 million. In 1999, debt was increased by $15.3 million while $5.3 million was repaid. The airline used a total of $4.2 million in cash during 1999 for deposits on aircraft leases and an initial prepayment to fuel suppliers of $4.0 million in July 1999 to secure an extension of an improved fuel pricing arrangement to 2003. Capital expenditures (primarily aircraft) were down in 1999, to $44.5 million from the $47.6 million the year before. Three aircraft were purchased and two were acquired through operating leases in 1999. This compares with four purchased and one on an operating lease added to the fleet the previous year. The preparation costs related to the fifth aircraft, late in 1998, were expended and capitalized in early 1999. WestJet is continually examining the mix of leases, debt and equity to ensure the right balance with a conservatively leveraged balance sheet, ample cash reserves and a strong equity base.

Outlook

As the new millennium began, WestJet responded to the opportunity to secure and build its future by embarking on a long-range fleet plan and negotiations with manufacturers and lessors for the transition out of the Boeing 737-200 in favor of new generation aircraft. WestJet selected the Boeing 737 new generation jets. In addition to the operational needs and efficiencies of the move to the new generation aircraft, WestJet is confident that fuel and maintenance cost savings alone will justify the increased ownership costs. The new generation aircraft ownership costs were kept to a minimum due to a favorable window in the aircraft sale/lease market. We believe that WestJet has negotiated very attractive terms, purchase prices, and lease rates with aircraft manufacturers and lessors. The added benefits of improved revenues from increased aircraft utilization and an initial low maintenance cost period should ensure that earnings and margins would improve with the new generation B737 aircraft. In addition, the new aircraft will assist our marketing initiatives by attracting a larger segment of the flying public.

The first new aircraft deliveries are anticipated in the second quarter of 2001. The first 10 aircraft will be on operating leases with a firm order placed for the next 20 purchased aircraft. WestJet has more than a sufficient level of capital resources and liquidity to achieve the fleet plan for 2000's growth, most of which will be operating leases and all of which will be B737-200 aircraft. The deposits and pre-delivery payments required on the new generation B737 aircraft are expected to be funded from cash flow, although financing of these amounts is available to the corporation. The first purchased new generation aircraft is currently scheduled to be delivered in January 2003. This provides us with a large window of time for continued generation of cash flow from operations and allows us flexibility in determining the appropriate timing and amounts of equity and debt financing for the acquisition of 20 new generation aircraft. The corporation has a short and long-term capital plan for the financing of the new generation Boeing aircraft which is designed to maintain adequate liquidity, a strong capital position and a conservatively leveraged balance sheet.

WestJet ended the 20th century with $50.7 million in the bank, total long-term debt of under $30 million and shareholders' equity of $94.5 million with access to the public equity markets as a result of our public issue of shares in 1999. The strong balance sheet at year's end, with low debt, strong working capital and healthy cash reserves, leaves the airline well poised to take advantage of the future growth opportunities unfolding as the industry in Canada restructures. These are exciting times for WestJet and for everyone in WestJet's world.


WestJetter Kevin of our Flight Operations team.

Auditors' Report to the Shareholders

We have audited the balance sheets of WestJet Airlines Ltd. as at December 31, 1999 and 1998 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG, LLP.

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Financial Statements

Balance Sheets

December 31, 1999 and 1998 (Stated in Thousands of Dollars)

	1999	1998
Assets		
Current assets:		
Cash and short-term investments	$ 50,740	$ 13,500
Accounts receivable	5,168	5,240
Prepaid expenses and deposits	4,123	3,479
Inventory	462	500
	60,493	22,719
Capital assets (note 2)	121,974	85,523
Other long-term assets (note 3)	4,131	-
	$ 186,598	$ 108,242
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 21,059	$ 14,663
Income taxes payable	7,410	-
Advance ticket sales	10,907	7,218
Non-refundable passenger credits	3,863	2,940
Current portion of long-term debt (note 4)	6,550	4,051
Current portion of obligations under capital lease (note 5)	137	78
	49,926	28,950
Long-term debt (note 4)	29,341	21,861
Obligations under capital lease (note 5)	335	322
Deferred income tax	12,509	7,748
	92,111	58,881
Shareholders' equity:		
Share capital (note 6)	69,039	39,536
Obligation to issue share capital (note 6)	-	209
Retained earnings	25,448	9,616
	94,487	49,361
Commitments (notes 5 and 8)		
Subsequent events (note 11)		
	$ 186,598	$ 108,242

See accompanying notes to financial statements.

On behalf of the Board:

Stephen Smith
Director

Wilmot Matthews
Director

Statements of Operations and Retained Earnings

Years ended December 31, 1999 and 1998
(Stated in Thousands of Dollars, Except Per Share Data)

		1999		1998
Revenues:				
Passenger revenues	$	193,715	$	118,612
Charter and other		9,859		6,825
		203,574		125,437
Expenses:				
Passenger services		43,955		31,386
Maintenance		31,854		22,129
Aircraft fuel		30,480		20,490
Sales and marketing		13,907		9,452
Reservations		9,550		4,917
General and administration		9,410		6,545
Flight operations		8,826		5,709
Inflight		7,531		3,465
Employee profit share provision		6,633		1,702
Aircraft leasing		2,687		1,448
Depreciation		8,272		5,087
		173,105		112,330
Earnings from operations		30,469		13,107
Non-operating income (expense):				
Interest income		1,657		453
Interest expense		(2,871)		(1,137)
Gain on disposal of assets		93		8
		(1,121)		(676)
Earnings before income taxes		29,348		12,431
Income taxes (note 7):				
Current		7,696		335
Deferred		5,820		5,579
		13,516		5,914
Net earnings		15,832		6,517
Retained earnings, beginning of year		9,616		3,099
Retained earnings, end of year	$	25,448	$	9,616
Earnings per share:				
Basic	$	0.63	$	0.28
Fully diluted	$	0.58	$	0.28

See accompanying notes to financial statements.

Statements of Cash Flow

Years ended December 31, 1999 and 1998
(Stated in Thousands of Dollars)

	1999	1998
Cash provided by (used in):		
Operations:		
Net earnings	$ 15,832	$ 6,517
Items not involving cash:		
Depreciation	8,272	5,087
Gain on disposal of capital assets	(93)	(8)
Deferred income tax	5,820	5,579
Cash flow from operations	29,831	17,175
Increase in non-cash working capital	17,948	6,759
	47,779	23,934
Financing:		
Increase in long-term debt	15,314	20,759
Repayment of long-term debt	(5,335)	(2,422)
Issuance of common shares	30,591	2,144
Share issuance costs	(2,356)	(87)
Issuance of performance shares	-	12
Increase in other long-term assets	(4,195)	-
Decrease in obligations under capital lease	(96)	(75)
	33,923	20,331
Investments:		
Aircraft additions	(39,318)	(42,717)
Other capital asset additions	(5,350)	(4,933)
Other capital asset disposals	206	99
	(44,462)	(47,551)
Net change in cash	37,240	(3,286)
Cash, beginning of year	13,500	16,786
Cash, end of year	$ 50,740	$ 13,500

Cash is defined as cash and short-term investments.
See accompanying notes to financial statements.

Notes to Financial Statements

Years ended December 31, 1999 and 1998
(Tabular Amounts are Stated in Thousands of Dollars)

1. Significant accounting policies:

(a) Revenue recognition

Passenger revenue is recognized when air transportation is provided. The value of unused tickets is included in the balance sheet as advance ticket sales under current liabilities.

(b) Non-refundable passenger credits:

The Corporation, under certain circumstances, may issue future travel credits which are non-refundable and which expire one year from the date of issue. These passenger credits are recorded at a discount of their face value. The utilization of passenger credits are recorded as revenue when flown.

(c) Foreign currency:

Monetary assets and liabilities, denominated in foreign currencies, are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and revenue and expense items are translated at rates prevailing when they were acquired or incurred.

Exchange gains and losses arising on the translation of long-term monetary items that are denominated in foreign currencies are deferred and amortized on a straight-line basis over the remaining term of the related monetary item.

(d) Inventory

Materials and supplies are valued at the lower of cost and replacement value. Aircraft expendables and consumables are expensed as incurred.

(e) Deferred costs:

Sales and marketing and reservation expenses attributed to the advance ticket sales are deferred and expensed in the period the related revenue is recognized. Included in prepaid expenses are $1,169,000 (1998 - $873,000) of deferred costs.

(f) Capital assets:

Capital assets are to be depreciated over their estimated useful lives at the following rates and methods.

Asset	Basis	Rate
Aircraft net of estimated residual value	Flight hours	Hours flown
Computer hardware and software	Straight-line	5 years
Equipment	Straight-line	5 years
Leasehold improvements	Straight-line	Over the term of the lease

(g) Maintenance costs:

Maintenance costs related to the cost of acquiring the aircraft and preparation for service are capitalized and included in aircraft costs.

Heavy maintenance ("D" check) costs incurred on aircraft are deferred and amortized over the remaining useful service life of the aircraft.

All other maintenance costs are expensed as incurred.

(h) Deferred income taxes:

The Corporation follows the deferral method of tax allocation accounting under which the provision for corporate income taxes is based on the earnings reported in the accounts and takes into account the tax effects of timing differences between financial statement income and taxable income.

(i) Financial instruments:

The Corporation manages its foreign exchange exposure through the use of options, forward contracts and cross currency swaps. Resulting gains and losses are accrued as exchange rates change to offset gains and losses resulting from the underlying hedged transactions. Premiums and discounts are amortized over the term of the contracts.

The Corporation manages its exposure to jet fuel price volatility through the use of fixed price and fixed ceiling price agreements. Premiums and discounts are amortized over the term of the contracts.

(j) Comparative figures:

Certain prior period balances have been reclassified to conform with current presentation.

2. Capital assets:

1999		Cost		Accumulated depreciation		Net book value
Aircraft	$	117,084	$	14,385	$	102,699
Spare engines and parts		14,331		-		14,331
Computer hardware and software		3,539		1,148		2,391
Computer hardware under capital lease		643		230		413
Equipment		2,484		787		1,697
Leasehold improvements		979		536		443
	$	139,060	$	17,086	$	121,974

Aircraft	$	77,766	$	7,188	$	70,578
Spare engines and parts		11,521		-		11,521
Computer hardware and software		2,404		709		1,695
Computer hardware under capital lease		476		116		360
Equipment		1,584		493		1,091
Leasehold improvements		592		314		278
	$	94,343	$	8,820	$	85,523

During the year capital assets were acquired at an aggregate cost of $168,000 by means of capital leases.

3. **Other long-term assets:**

Included in other long-term assets are pre-payments of premiums for long-term contracts with fuel suppliers of $3,333,000, deposits on long-term operating lease agreements of $603,000, and a loan to an officer of the Corporation of $195,000. The loan to an officer of the Corporation is unsecured and non-interest bearing. The loan will be repaid out of the officer's future compensation.

4. **Long-term debt:**

		1999		1998
$7,500,000 bank term loan repayable in monthly instalments of $154, 000 including interest at 8.50%, maturing November 2002, secured by two aircraft	$	4,754	$	6,133
$7,500,000 bank term loan repayable in monthly instalments of $153,000 including interest at 8.13%, maturing April 2003, secured by two aircraft		5,330		6,667
$5,117,000 term loan repayable in monthly instalments of $76,000 including interest at 8.29% and $2,383,000 term loan repayable in monthly instalments of $36,000 including interest at 8.36%, maturing October 2005, secured by one aircraft		6,645		7,399
$5,759,000 term loan repayable in monthly instalments of $87,000 including interest at 8.42%, and $1,614,000 term loan repayable in monthly instalments of $25,000 including interest at 8.49%, maturing October 2005, secured by one aircraft		6,606		5,713
$4,257,000 term loan repayable in monthly instalments of $66,000 including interest at 8.39% and $2,943,000 term loan repayable in monthly instalments of $47,000 including interest at 8.81%, maturing October 2005, secured by one aircraft		6,681		
$6,500,000 bank term loan repayable in monthly instalments of $133,000 including interest at 8.38%, maturing May 2004, secured by two aircraft		5,875		-
		35,891		25,912
Less current portion		6,550		4,051
	$	29,341	$	21,861

Future scheduled repayment of long-term debt is as follows:

2000	$	6,550
2001		7,124
2002		7,590
2003		5,237
2004 and thereafter		9,390
	$	35,891

The Corporation has available a facility with a chartered bank of $2,000,000 for letters of guarantee and U.S. $7,000,000 for forward foreign exchange contracts. At December 31, 1999, letters of guarantee totaling $725,000 have been issued under these facilities. The credit facilities are secured by a fixed first charge on one aircraft, a general security agreement and an assignment of insurance proceeds.

The cash interest paid in the year was $2,860,000.

5. Leases:

The Corporation has entered into operating leases for aircraft, buildings, computer hardware and software licenses and capital leases relating to computer hardware. The obligations on a calendar-year basis, are as follows:

		Capital Lease		Operating Leases
2000	$	171	$	7,506
2001		171		7,196
2002		149		7,148
2003		53		5,155
2004 and thereafter		-		3,600
Total lease payments		544	$	30,605
Less imputed interest at 8.12%		72		
Net minimum lease payments		472		
Current portion of obligations under capital lease		137		
Obligations under capital lease	$	335		

6. Share capital:

The non-voting common shares and the non-voting preferred shares are subject to limitations to be fixed by the directors of the Corporation.

(a) Authorized:

Unlimited number of voting common shares

700,000 non-voting performance shares

Unlimited number of non-voting shares

Unlimited number of non-voting first preferred shares

Unlimited number of non-voting second preferred shares

Unlimited number of non-voting third preferred shares.

With over 1,000 fluttering beauties, Victoria's Butterfly Gardens is one of the largest butterfly conservation in Canada.

Vancouver's reputation as "Hollywood North" is well deserved. The city hosts almost $1 billion of television and film production annually.

Abbotsford is home to an annual garlic festival, where the "stinky flower" is celebrated for two straight days.

Grande Prairie is no ugly duckling. The city's many lakes are home to one of North America's largest populations of trumpeter swans.

6. Share capital cont:

(b) Issued:

	1999 Number	1999 Amount	1998 Number	1998 Amount
Common shares:				
Balance, beginning of year	23,337,530	$ 39,523	22,665,398	$ 37,513
Initial Public Offering	2,750,000	27,500	-	-
Exercise of options	744,772	2,138		-
Employee share purchase	370,248	1,742	554,184	2,061
Conversion of performance shares	103,502	3	119,990	-
Cancellation of shares	(2,053)	(5)	(2,042)	(3)
Share issuance costs	-	(2,356)	-	(87)
Tax benefit of issue costs		1,059	-	39
	27,303,999	69,604	23,337,530	39,523
Less: Due from shareholder	-	(575)	-	
Balance, end of year	27,303,999	69,029	23,337,530	39,523
Performance shares:				
Balance, beginning of year	437,146	13	542,500	1
Issued		-	38,000	12
Converted to common shares	(103,502)	(3)	(119,990)	-
Surrendered	-	-	(23,364)	-
Balance, end of year	333,644	10	437,146	13
		$ 69,039		$ 39,536

Visitors and staff at the annual Calgary Stampede consume two tonnes of bacon and sausage, 5000 bottles of pancake syrup and 85,000 containers of juice. And that's just breakfast, pardner.

Saskatoon gets more sunshine than any other city in Canada.

No need to dream of a white Christmas. Winnipeg is one of four major Canadian cities to guarantee snow for Santa's annual run.

Thunder Bay sits on the shores of Lake Superior, the world's largest freshwater Lake.

(c) Performance shares:

The performance shares are held by management and key employees of the Corporation. These performance shares are convertible at the option of the holder into common shares of the Corporation on the basis of one performance share for each $1.86 of convertible amount. The convertible amount is calculated as being 5% of the net earnings of the Corporation up to maximum net earnings of $25,668,000. Net earnings is defined as net income after tax for each fiscal year as per the audited financial statements in accordance with generally accepted accounting principles, less an imputed interest charge on new equity invested.

The interest charge is calculated as the aggregate of 20% times each amount of new equity invested, times the number of days that the new equity was available to the Corporation, divided by the number of days in the year. At the Annual and Special Meeting of the Shareholders held on June 21, 1999, the shareholders approved a six month deferral of this calculation with respect to any new equity funds raised. The holders of the performance shares shall, on a cumulative basis, be entitled to convert to a maximum of one-third of the performance shares following each of the three fiscal years, beginning with the completion of the 1997 fiscal year. The cumulative convertible amount is to be allocated in proportion to the holders' percentage of outstanding performance shares. The right to convert expires 90 days following issuance of audited financial statements on the third fiscal year from the commencement date, termination of employment or the death of the shareholder.

As at December 31, 1999, 333,644 (1998 - 118,252) performance shares are eligible for conversion. These shares must be converted by June 2000 or the right to convert expires.

(d) Share option plan:

The Corporation has a share option plan, whereby up to a maximum of 2,650,000 common shares may be issued to directors, officers and employees of the Corporation subject to the following limitations:

(i) the number of common shares reserved for issuance to any one optionee will not exceed 5% of the issued and outstanding common shares at any time;

(ii) the number of common shares reserved for issuance to insiders shall not exceed 10% of the issued and outstanding common shares; and

(iii) the number of common shares issuable under the Plan which may be issued within a one year period shall not exceed 10% of the issued and outstanding common shares at any time.

Changes in the number of options, with their weighted average exercise prices, are summarized below:

	1999		1998	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	2,265,503	$ 3.16	1,825,500	$ 2.87
Granted	649,653	6.50	567,920	4.00
Exercised	(744,772)	2.87	-	-
Cancelled	(22,167)	4.09	(127,917)	2.76
Stock options outstanding, end of year	2,148,217	$ 4.26	2,265,503	$ 3.16
Exercisable at year end	550,478	$ 2.91	432,166	$ 3.00

The following table summarizes the stock options outstanding and exercisable at December 31, 1999 and the year of expiry:

Outstanding			Exercisable Options		
Exercise Price	Number Outstanding	Year of Vesting	Exercisable	Exercise Price	Year of Expiry
$ 2.50	200,761	1999	200,761	$ 2.50	2000
$ 3.00	751,217	one third per year beginning 1998	299,717	$ 3.00	One year after vesting
$ 4.00	552,086	2001	-	$ 4.00	2002
$ 4.00	50,000	1999	50,000	$ 4.00	2003
$ 6.00	488,583	2002	-	$ 6.00	2003
$ 10.00	105,570	2002	-	$ 10.00	2003
$ 4.26	2,148,217		550,478	$ 2.91	

Upon filing the Corporation's initial public offering, 105,570 options were re priced from $6.00 per share to $10.00 per share. In 1999, the Corporation has committed to the holders of the options that it will pay the differential up to $4.00 per share upon exercise of those options.

6. Share capital cont:

Employee share purchase plan

Under the terms of the Employee Share Purchase Plan, employees may contribute up to a maximum of 20% of their gross pay and acquire common shares of the Corporation at the current fair market value of such shares. The Corporation matches the employee contributions and shares may be withdrawn from the Plan after being held in trust for one year. Employees may offer to sell common shares at any time to the Corporation for 50% of the then current market price.

As at December 31, 1998, $209,000 was held in Trust representing employee and employer contributions under the Plan and the Company had an obligation to issue 52,331 common shares at $4.00 per share. After July, 1999, the Corporation has not issued the shares from Treasury but purchased these shares off of the open market.

Due from shareholder

The advance to purchase common shares of the Corporation consists of promissory notes of $575,000 as at December 31, 1999 due from a shareholder who is an officer of the Corporation. The amount repayable on or before March 31, 2000 is $275,000 and on or before May 31, 2000 is $300,000.

7. Income taxes:

Income taxes vary upon the amount that would be computed by applying the basic Federal and Provincial tax rate of 45% to earnings before taxes as follows:

	1999	1998
Expected income tax provision	$ 13,207	$ 5,544
Add (deduct):		
Non-deductible expenses	55	35
Capital taxes	264	335
Other	(10)	-
	$ 13,516	$ 5,914

8. Commitments:

(a) Employee profit share:

The Corporation has an employee profit sharing plan whereby eligible employees will participate in the pre-tax operating income of the Corporation. The profit share ranges from a minimum of 10% to a maximum of 20% of earnings before employee profit share and income taxes. The amounts paid under the plan are subject to approval by the Board of Directors.

(b) Building lease:

The Corporation entered into a 10 year lease agreement for additional office space. The building, which is expected to be ready for occupancy by September 2000, will result in the consolidation of all head office, administration and accounting functions. The aggregate payments under this lease agreement were included in the Corporation's commitments as at December 31, 1999 (see note 5).

(c) Hushkit requirements:

In accordance with Canadian Aviation Regulations (C.A.R.s) requirements, the Corporation is required to install hushkits on its aircraft fleet in order to conform to noise emission standards. The C.A.R.s requirement to hushkit Boeing 737 aircraft is as follows:

	Percentage of fleet to be hushkitted (rounded down)
December 31, 1999	75%
October 1, 2001	85%
April 1, 2002	100%

As at December 31, 1999, the Corporation had 11 of its 15 operational aircraft equipped with hushkits and was in compliance with C.A.R.'s requirements.

9. Risk management:

(a) Interest rate risk:

The Corporation has entered into fixed rate debt agreements in order to manage its interest rate exposure on debt instruments. These agreements are described in note 3.

(b) Foreign currency exchange risk:

The Corporation is exposed to foreign currency fluctuations as certain ongoing expenses are referenced to U.S. dollar denominated prices. The Corporation periodically uses financial instruments, including forward exchange contracts and options, to manage its exposure. At December 31, 1999 there was a forward contract to purchase U.S. $2 million. The fair value of the contract outstanding at December 31, 1999 was not materially different than carrying value.

(c) Credit risk:

The Corporation does not believe it is subject to any significant concentration of credit risk. Most of the Corporation's receivables result from tickets sold to individual passengers through the use of major credit cards and travel agents. These receivables are short-term, generally being settled shortly after the sale.

(d) Fuel risk management:

The Corporation has managed its exposure to jet fuel price volatility through the use of long-term fixed price contracts and contracts with a fixed ceiling price which it has entered into with various fuel suppliers. Any premiums paid to enter into these long-term fuel arrangements are recorded as other long-term assets and amortized to fuel expense over the term of the contracts. As of December 31, 1999, the Corporation had entered into fixed price fuel contracts that are in effect through to June 2000, as well as a contract with a fixed ceiling price for the period July 2000 to June 2003. Based on historical and anticipated volumes of fuel usage, these contracts represent approximately 66% of the Corporation's projected 2000 fuel requirements.

(e) Fair value of financial instruments:

The carrying amounts of financial instruments included in the balance sheet, other than long-term debt, approximate their fair value due to their short-term to maturity.

At December 31, 1999, the fair value of the long-term debt was approximately $35,058,000, based on market prices of debt with comparable remaining maturities.

10. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

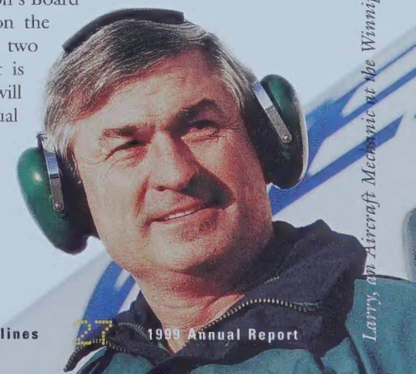
11. Subsequent events:

(a) Subsequent to year end, the Corporation has reached an agreement with Boeing Corporation to acquire 20 new 737-600 or 737-700 series aircraft, with an option to acquire an additional 30 aircraft prior to 2008. In addition, the Corporation also entered into an agreement for the lease of 10 of the same aircraft type with the option to lease a further 10. The purchase price of 20 Boeing 737-600 or 737-700's will be approximately $900 million including spares.

(b) Subsequent to year end, the Corporation has entered into letter agreements for the acquisition of four Boeing 737-200 aircraft for a total purchase price of approximately U.S. $17 million. The delivery dates for these aircraft are expected to be between March and October 2000.

(c) Subsequent to year end, the Corporation entered into a settlement agreement to discontinue its claim against a California corporation (the "defendant") in exchange for a net payment of U.S. $275,000. The settlement also includes the discontinuance of the defendant's counter-claim against the Corporation in the amount of $10 million. The amount of the settlement will be recorded as other income in fiscal 2000.

(d) Subsequent to year end, the Corporation's Board of Directors approved a stock split on the basis of three common shares for each two common shares held. The stock split is subject to shareholders' approval and will be proposed at the Corporation's Annual and Special Meeting on May 4, 2000.



Larry, an Aircraft Mechanic at the Winnipeg airport.

Corporate Information

Board of Directors

Clive J. Beddoe – Executive Chairman

President
Hanover Group
of Companies

Stephen C. Smith

President and Chief
Executive Officer
WestJet Airlines Ltd.

Ron Greene

President
Tortuga Investment Corp.

Wilmot Matthews

President
Marjad Inc.

Murph N. Hannon

President
Murcon
Development Ltd.

Brian Gibson

Portfolio Manager,
Canadian Equities
Ontario Teachers'
Pension Plan Board

Tim Morgan

Senior Vice President,
Operations
WestJet Airlines Ltd.

Donald A. MacDonald

President
Sanjel Corporation

Larry Pollock

President and Chief
Executive Officer
Canadian Western Bank
and Canadian Western
Trust

Officers

Clive J. Beddoe

Executive Chairman

Stephen C. Smith

President and Chief
Executive Officer

Alexander (Sandy) J. Campbell

Senior Vice President,
Finance
Chief Financial Officer

Tim Morgan

Senior Vice President,
Operations

Donald Bell

Senior Vice President,
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The Boeing 737-700: the future of WestJet's fleet.

WESTJET

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